Warehouses stack the deck

By Jim Auchmutey

Saturday morning in Atlanta. At one large hardware store on the east side of town, six cars, including employes' vehicles, sit in the lot. A couple of miles away at a supermarket-size home center, a young woman yawns at the only open cash register and files her nails.

But down the road at Home Depot, a home improvement warehouse, the parking lot is crawling with cars, many bearing out-of-county license plates. Inside, a dozen checkout lines are open. Customers wander wide-eyed through canyons of stock shelved 20 ft. high, dodging forklifts that ferry everything from flooring to roofing to the kitchen sink.

It's like Six Flags Over Gypsum.

Although it is nowhere near the largest chain of home centers in the nation, Atlanta-based Home Depot Inc. is the hottest thing in home improvement since the hammer, according to many analysts and competitors. It was the only home improvement company—and one of very few retailers—to make the *Inc.* 100, that magazine's ranking of the fastest growing small public companies of 1984.

Since opening its first store in Atlanta five years ago, Home Depot has captured an estimated 20% of the local home improvement market with just four stores. Outlets are now in Louisiana, Florida and Arizona —21 in all. Plans call for almost twice that number by the end of 1985, after Texas and California are invaded.

Oddly, many people in the industry say they believe Home Depot and other warehouse operations have not wrested business away from competitors such as lumberyards, hardware stores and smaller home centers. As Home Depot chairman Bernard Marcus is fond of saying, his big sell makes the pie fatter for the whole home improvement industry.

"I agree with him," says Leonard Herring, president of the North Wilkesboro, N.C.-based Lowe's Cos., a much larger chain of much smaller home centers. "Sales at our Atlanta stores have increased above the company average. The warehouses seem to be increasing the business as well as setting standards others are looking to."

The warehouse concept pioneered by Home Depot is the third stage in the evolution of home improvement retailing.

In the 1950s, the hapless handyman had to visit six or more suppliers if he wanted to renovate a house. The business was so tailored toward professionals that the do-it-yourselfer often was too intimidated to ask for something as piddling as five furring strips. Change started slowly three decades ago as lumberyards set up cash-and-carry operations to accommodate nonprofessional customers.

> **"The warehouses seem to be increasing the business as well as setting standards others are looking to."**
>
> *—Leonard Herring*
> *Lowe's Cos.*

But the real revolution in the home center evolution occurred in the 1960s with the birth of home centers, pioneered by the Handy City and Handy Dan chains, now owned by W.R. Grace & Co., New York. Home centers offered a little of almost everything needed for the house.

The warehouse idea hinges on offering a lot of everything. "We wanted the customer to be able to literally build a house out of a Home Depot," says Mr. Marcus, a former Handy Dan executive. "So we came up with a store that's basically a warehouse with cash registers up front."

Home Depot is industrial-strength retailing. The stores are bigger—80,000 sq. ft., more than twice the size of most home centers—the selection wider—25,000 units stocked, about double home center inventory—and usually cheaper—the average pricing margin is rock bottom by industry standards, 28%. And that's "too damn high," Mr. Marcus says.

The most surprising thing is that Home Depot forged this formula and made it work during the worst U.S. recession in 50 years.

Not surprisingly, the concept has been imitated. Many conventional home centers have added space to their stores and increased their inventories. And several warehouse chains have been started, including Plano, Tex.-based Bowater, Los Angeles-based Home Club, Margate, Fla.-based HomeOwners Warehouse, San Antonio-based Home-Pro Warehouse and New Orleans-based HouseWorks.

Still, the warehouse trend is in its infancy. "We need to put this thing in perspective," says Harry Franta, editor of *Home Center Magazine*, a Vance publication based in Lincolnshire, Ill. "There are perhaps 50 warehouse stores operating in the U.S. If each did $15 million in annual sales—and that would be a very good average—that totals $750 million."

Last year, Lowe's rang up almost twice that amount, resulting in total sales of about $1.4 billion. And *Building Supply & Home Centers* reports that the 322 largest home improvement retailers' 1983 sales reached $25.5 billion. Only a handful of those 322 companies were warehouse operations, although Home Depot's sales of $256 million topped the average of $79 million.

Mr. Franta says he does not want to "belittle the trend. Warehouses are growing. Some of the better thinkers in this industry say they will capture 7% to 10% of the industry."

That would be remarkable. Home improvement is a very fragmented business dominated by local and regional chains. None of the big boys—Lowe's; Payless Cashways Inc., Kansas City, Mo.; Wickes Cos., Santa Monica, Cal.; W.R. Grace—commands more than 3% of the national market. Smaller home centers as a group account for more than a third of it.

Increasingly, the market is the province of the home handyman. This year, the Do-It-Yourself Research Institute, Indianapolis, estimates that almost three-fifths of the $68 billion Americans will spend on home improvement will come from the hip pockets of nonprofessionals. A primary reason: The rising cost of buying and maintaining a home.

"Do-it-yourselfing has become

Jim Auchmutey, a writer with the Atlanta Constitution, *is renovating his home. He reports being on a first-name basis with every clerk in every Atlanta-area home center and hardware store.*

Lowe's renovates its image

When Robert Swanson talks about the strategy of Lowe's Cos., you'd think he was selling Diane Von Furstenberg blouses instead of sheet rock. Lowe's, the second largest home center chain in the nation, takes design very seriously.

"When you walk into a Lowe's, each corner of the store makes a fashion statement," says Mr. Swanson, senior vp-advertising. If a Lowe's executive had said something like that 20 years ago, he might have been sent back to the sawmill to get his mind back on the right plane.

Obviously, things have changed at the North Wilkesboro, N.C., company. Years ago it was known for running lumberyards in slumbering small towns down the East Coast and across the South. No frills, no fashion statements—just lots of wood, sold to professional contractors for the most part.

During the home center revolution of the 1960s and 1970s, Lowe's gravitated toward do-it-yourself retailing, but contractor sales remained the backbone of its business. Increasingly, though, company leadership realized that every time home building slumped, Lowe's was whapped with a 2-by-4 on its corporate keister. When housing starts almost stopped in the late 1970s, the company decided to court the common consumer carpenter in a big way.

It launched a plan called RSVP (Retail Sales, Volume and Profits), aimed at standardizing the company's 241 stores. A consultant was hired to make the showrooms more appealing to retail customers by improving traffic flow and lighting. The product line was shored up, store hours extended, advertising increased.

The result: After a flat sales tally of $1 billion in 1982, Lowe's recorded $1.43 billion in 1983. It was the first good housing year in which the chain made more money selling to consumers rather than professionals.

"That clearly is the future trend," Mr. Swanson says.

In today's home center industry, Lowe's plays a boutique compared with Atlanta-based Home Depot's warehouse. Although Lowe's is constructing larger stores, its typical outlet is 12,000 sq. ft., one-sixth the size of an average Home Depot. And it stocks one-third as many items.

The biggest difference, though, is store appearance. In stark contrast to Home Depot's two-story industrial shelving, the aisles of which are prowled by forklifts, Lowe's has traditional retail displays and pipes in music. "We present merchandise in a way you can envision it in a finished house," Mr. Swanson says. "We don't just show you kitchen cabinets in a row; we show you the wallpaper and countertop. We try to provide the sizzle along with the steak."

As for price, Lowe's beats Home Depot on some things, but it can't meet it item for item. "But price isn't the only thing that matters," Mr. Swanson says. "There's color, pattern, wood tone. The customer wants to know that something's fashion-right."

And, as a typical consumer, I certainly want my 2-by-4s to be fashion-right. —*J.A.*

Nailing down the home improvement market

Top 10 home improvement retailers

	1983 sales ($ millions)	No. of units
1. Sears, Roebuck & Co.	$3,700	850
2. K mart Corp.	1,600	1,180
3. Lowe's Cos.	1,300	235
4. W.R. Grace & Co.	1,000	280
5. Wickes Cos.	1,000	450
6. Payless Cashways	850	117
7. Evan's Products	800	345
8. Sherwin-Williams Co.	750	1,400
9. 84 Lumber	625	340
10. Scotty's Inc.	450	103

Source: *Building Supply & Home Centers*

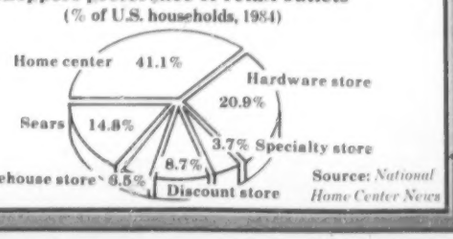
Growth of the home improvement market

	Total market ($ billions)	DIY market ($ billions)	DIY market as % of total
1970	$17.5	$6.4	36.6%
1975	29.7	14.4	48.5
1980	51.4	26.5	51.6
1985	75.9	43.3	57.0
1990	122.4	75.4	61.6

Source: Do-It-Yourself Research Institute

Shoppers preference of retail outlets

(% of U.S. households, 1984)



Source: *National Home Center News*

a very important part of our life style today," Mr. Marcus says. "When money is tight, you can give up a vacation, put off buying a dress or a new car; but you need a roof over your head. Your house is the only damn thing that's worth anything in this world. Fixing it up is a good investment."

Home Depot takes the fixup philosophy to heart. Many of its outlets are located in converted Woolco or Treasure Island stores, and its headquarters is a renovated A&P grocery store on the banks of the Chattahoochee River. Sitting in his office there, Mr. Marcus sounds almost evangelical while explaining do-it-yourselfing. It can get to be an addiction, like jogging.

"We have one interview on tape where a guy says Home Depot is his life," he says. "People laugh when they hear it, but they don't realize that for him, a Saturday without Home Depot is almost like passing up sex."

But for the average homeowner, who'd rather hold a spouse than a hammer, that first do-it-yourself project can be intimidating. That's where service, the other element of the Home Depot formula, comes in. Each store employs more than 120 people, most of them fulltime. It's not unusual to see a sales clerk diagramming a project for a customer.

Finding trained staff is one of Home Depot's biggest potential problems as it expands, industry observers say. One way the store found staff in New Orleans was to raid the competition. In the time-honored tradition of free enterprise, Home Depot hired away employes from Harry's Ace Hardware, a six-store chain whose vp, Don Shellist, calls warehouse stores "the beasts."

Today, a year later, he assesses the warehouses' effect on Harry's: "They had no effect at all—other than making us change our entire operation.

"We had to get better," Mr. Shellist says. "We pushed training very hard. We restructured our ads. We had to attack the high-price image of the hardware store in general, so we ran specials on high-profile items like Black & Decker tools. We almost doubled our advertising the first year just to maintain market share. We used to say 'Harry's Ace Makes Hardware Easy'—very laid-back southern-style ads. Then we went to a guy banging a board on tv and screaming about prices.

"The warehouses," he says, "really shook up the marketplace."

Indeed, when Home Depot invades a city, it's a frontal assault, with advertising as its artillery. In Orlando, for example, they asked customers to bring in the catalog of Scotty's Inc., a 110-store home center chain that's been based in Winter Haven, Fla., almost as long as pink flamingos. Home Depot said it would knock 20% off Scotty's prices. They needed two police officers to direct traffic at one store.

Home Depot's ads are a mirror of the company: Big, no-nonsense and sometimes brash. Newspaper spreads, a monthly

(Continued on Page 14)

Sears, K mart building on homes

By B.G. Yovovich

The far-reaching changes under way in the home improvement market have spurred mass market retailers to embark on some major remodeling projects of their own.

At K mart Corp., Troy, Mich., not only have in-store home improvement product offerings been expanded dramatically and reorganized into mini-home center modules, but this summer K mart acquired Home Centers of America, San Antonio, Tex. Soon after the acquisition, K mart announced plans to aggressively expand HCA operations and move into new markets.

> **"... when people want to make an improvement in a given area of their home, they want to prepare for it in one shopping trip."**
>
> *—Barbara Palazzolo*
> *K mart Corp.*

Giant retailer Sears, Roebuck & Co., Chicago, also has revamped its home improvement retailing operations and is testing a new breed of stand-alone home improvement stores.

Moving in the other direction, J.C. Penney Co., New York, has abandoned the market and removed home improvement products from its stores.

K mart Corp. has reorganized its expanded home improvement offerings into home center modules.

More generally, the whole industry is abuzz with speculation about the fast-growing warehouse home centers and the impact these changes will exert on existing retail channels. "The whole scenario is changing rapidly," says Barbara Alexander, a vp-building and construction analyst with Salomon Brothers, New York.

B.G. Yovovich is a frequent contributor to Advertising Age *Special Report.*

The changes at K mart illustrate some of the impending fundamental shifts in home improvement retailing. Guided by customer surveys and market research, K mart efforts began with restructuring the chain's in-store home improvement operations.

"We found that not only were people getting more involved in do-it-yourself [activities], but that when people want to make an improvement in a given area of their home, they want to prepare for it in one shopping trip," says Barbara Palazzolo, assistant to the vp for public relations.

"They want to go to one place to purchase the entire package and go home and complete the job on a given day or weekend. We ... make sure that the merchandise we have complements that one-day project," she says.

In particular, K mart brought together hardware, plumbing and other products that previously might have been located in different departments. Inventories of building materials—roofing, insulation and dimensional lumber, for example—were expanded, and, in many cases, relocated from storage areas. In combination, these moves essentially turned the home improvement modules into 8,000 to 12,000 sq. ft. mini-home centers within the K mart store.

Product packaging also has been changed. "We found that people wanted instructions, so our buyers worked very closely with merchandisers" to provide more detailed information on packaging, Ms. Palazzolo says.

A decade ago, products such as door locks and kitchen faucets generally were placed in plain brown boxes marked with little more than a stock number. Today's hardware box is likely to be "a consumer package, with step-by-step instructions," says Harry Franta, editor of *Home Center Magazine*, a Vance Publication, Lincolnshire, Ill.

"There is better packaging, better presentation, better instructions, and the product has been improved Even siding and paneling have been improved" and made easier for the do-it-yourselfer to install, he says.

"If you look in a K mart, you will see a lot of stuff that is packaged and ready to go," Mr. Franta says. "It's geared to self-service." The success of the in-store expansion prompted the K mart task force that engineered the effort to examine other possibilities.

"As [the task force members] studied the [home center] warehouse retailing operations, they realized that this was an area that had some real promise," Salomon Brothers' Ms. Alexander says. "And, because it was somewhat capital-intensive, it could give a company like K mart a leg up.

> **"There is better packaging, better presentation, better instructions, and the product has been improved."**
>
> *—Harry Franta*
> **Home Center Magazine**

"It would, for example, be really expensive to put up 10 or 20 [warehouse-size] stores in Chicago," she says. "There is so much in the way of preopening costs, so much in first-year advertising costs, that almost no one could afford it. But for K mart, it would be [on the order of] a penny a share. They could take the hit and not even notice it."

K mart officials also became convinced new warehouse stores would not cannibalize existing K mart home improvement sales.

"Our free-standing home centers will cater to a completely different market," Ms. Palazzolo says.

"In the K mart stores, we are catering to the one-day or weekender projects, whereas our Builder's Square stores, though they will have those one-day things, also will feature products for more extensive, more elaborate projects," she says.

Sears, Roebuck & Co. is attempting to build a solid reputation in home improvement through its in-house brand names, such as Craftsman tools and Weatherbeater paints.

Based on these conclusions, K mart acquired the nine-unit Home Centers of America warehouse chain this summer and announced plans to add two more HCA units in Texas. It also revealed plans to open three Builder's Square warehouses in the Chicago area by the end of 1984. Ten new units are planned for 1985; locations have not been indicated.

At Sears, officials say they probably will not parallel the moves made at K mart. For one thing, although the retail giant rearranged and remerchandised the home improvement areas in its "stores of the future," Sears is limited in how extensively it can tie in with do-it-yourself consumer trends.

For example, its stores, many of which are located in shopping malls, run into logistical problems with items such as plywood sheets and dimensional lumber, making it difficult for Sears to take the "everything you need for your weekend project" approach.

Similarly, stores located in shopping malls often are prohibited from carrying growing goods, products that have been increasingly successful at traditional home centers, in their lawn and garden sections.

Even Sears' experiments with stand-alone home improvement units take a different approach, a Sears official says, attempting to build on its "basic marketing

(Continued on Page 14)

Homeowners won't leave contractors out in cold

Nearly everyone involved in the home improvement market is drumming up images of a dynamic do-it-yourself army. This group of hammer-happy homeowners reportedly is learning how to nail down the intricacies of increasingly complex projects, revolting against the ravages of professional contractors' hourly rates.

To determine whether the legions of professionals are doomed, and to obtain a contractor's opinion of the home improvement movement, we called Bob Vila, host of "This Old House," a Public Broadcasting System tv program. The show, which brings together contractors who transform the homeliest hovel into a majestic mansion, is sponsored by Owens-Corning Fiberglas Corp. and entering its sixth season October.

Special Report: Commentary

By Bob Vila

The economics of the mid-1970s were what brought the home improvement market to the forefront.

I pick the Arab oil embargo as the point that really highlighted the economic times; people realized that inflation was getting out of hand and by the end of the '70s they did not want to pay for anything they could do themselves.

What really helped the home improvement industry is that it's simple for most people to become involved in it. Do-it-yourself auto repair hasn't caught on to the same degree because it's much easier for someone to replace the sash cord on a window than a fan belt on a car engine.

This phenomenon—well, I don't know if I can refer to it as a phenomenon because it's always been here—never will let up. As the population increases and more new homes are built and more are rehabilitated, the do-it-yourself aspect of the industry can only spiral upward. Probably the most popular home purchase is the 50-to-100-year-old home. And more people are realizing that nothing is more rewarding than face lifting an old house.

Not to mention the fact that more and more people are making their living rehabilitating and renovating dwellings. Activity in home improvement is happening on so many different levels, all of which support its existence.

No one has lost out by the growth in do-it-yourself projects. Larger contractors work on big jobs, so they haven't been affected. The small home improvement contractor probably has suffered a bit in the short term, but not over-all. The contractor and do-it-yourselfer have a symbiotic relationship.

"Take an accountant who's a real crackerjack carpenter. If he decides to build an addition or totally revamp his house, he can probably handle all the carpentry. But he'll most likely have to call in an expert to handle the plumbing or the electrical or the roofing. You see, the do-it-yourself movement has really built business for everyone because people wouldn't have thought of doing half of the things they're undertaking today. They would have moved to another house or just not bothered before.

Besides the fact that in building very few people are a jack-of-all-trades, another factor supporting contractors is that most people don't have the time to do projects themselves. In our new show, we're attempting to show that the best approach is a blend between contractor work and do-it-yourself projects. Homeowners just don't have the time or the expertise to handle everything.

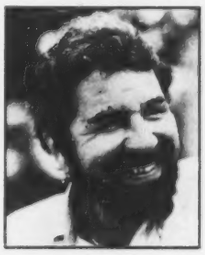
Contractors also will function as home improvement consultants for do-it-yourselfers. They won't do this as a mainstay of their business; maybe about 20% of the time. On one hand, they are slightly incredulous that they can charge for their services as consultants. But on the other, they feel they have valuable knowledge and skills that they shouldn't give away for free. It's similar to the way that architects' fees and service are structured.

There's also a lot more advice on the retail side. I've watched lumberyards evolve into home centers, and the major change has been in the personnel who staff the home center of today. Before, you had professionals selling to professionals; the staff didn't have to deal with consumers or do much in the way of traditional sales and service.

Now, one of the most important things for salespeople is that they know how to help people get going on a project without intimidating them, explaining as simply as possible what's needed to undertake and complete a job. The home improvement retailer—along with books, magazines and shows such as "This Old House"—increasingly will be the most important source of information.

"We're attempting to show that the best approach is a blend between contractor work and do-it-yourself projects. Homeowners just don't have the time or the expertise to handle everything."

—Bob Vila
"This Old House"



Sears

(Continued from Page 13)

strengths: Our good name, our in-house brand names of Craftsman [tools] and Weatherbeater paints.

"There is plenty of room in this industry for different types of retailers, and the most critical thing is to develop a personality in the consumer's mind, something that you stand for."

In particular, the five free-standing units it has been testing during the past year are intended to be essentially convenience stores, offering little more than the full line of Sears paint and hardware. "We sell more paint to the consumer than does any other retailer," a Sears spokesperson says.

When company projections showed that industrywide paint sales would become increasingly competitive and only grow at a 4% rate, "we recognized that we could not just sit there and expect to keep our business."

In contrast to Sears and K mart, J.C. Penney has backed away from the home improvement market. "We eliminated those product lines in order to provide additional space for more fashionable lines of merchandise, which our research shows customers expected to find in department store settings in regional shopping malls where we have most of our stores," says Henry J. Rusman, public affairs field manager.

"We felt that we needed to position ourselves to compete with the traditional department stores for the fashion and home furnishing purchases of the regional shopping center customer," he says. "That was the foundation of our business. We were not essentially a hard lines merchant, and home improvement was a very small part of our merchandise offerings in these large traditional full-line department stores. "We felt that selling hammers and tools next to designer sheets and pillowcases is the wrong mix."

By dropping its home improvement products, J.C. Penney will avoid some of the challenges that will confront retailers that remain in the market. For one thing, efforts to put together an in-store home improvement center require the retailer to develop new skills.

"Just what is the right selection to have in structural panels? How much waferboard to have against plywood? What grades of plywood? How much of each? There is a lot to be learned there," Mr. Franta says.

The extensive advice and services offered by warehouse stores also are likely to put pressure on other home improvement retailers to upgrade their service offerings.

"An important part of the reason that warehouse stores have grown is that they can help the people who don't know anything more than 'I've got this piece of pipe in my hand. It broke off and I need to replace it.' This has been one of the things that has been lacking in mass merchandisers," Mr. Franta says.

Warehouse

(Continued from Page 13)

mailed catalog, and tv and radio spots—with spokesman Al Carrell, the syndicated radio "Super Handyman" whose voice must register 10 on the nasal scale—present the Depot's products. The print ads are distinguished by such punnish headlines as "Talk about Cheap!" (for telephones) and "Air to the Throne" (for bathroom fans).

The ad fusillade isn't necessarily bad for competitors, though. Home Depot's advertising "brings attention to home improvement in the whole area," Mr. Shellist of Harry's Ace Hardware says. "Sales were up for our whole operation in 1983." For that matter, Scotty's reports no sales losses in cities where it competes with Home Depot.

So far, then, the do-it-yourself market seems to be growing steadily enough to keep everyone happy. The economy is robust, the grown-up baby boomers are sawing and sanding, and the computerized cash registers are beeping and blipping.

"It'a a race for markets," *Home Center Magazine's* Mr. Franta says. "We have yet to see a warehouse casualty, but I think we will soon. These stores depend on tremendous management talent."

And Home Depot?

"There are limits to management, and somehow they will need to train enough people for this enormous expansion," he says. "But they haven't shown any weaknesses yet."

Confidence to fuel growth

At the same time that the home improvement market will present problems and challenges to the myriad retailers jumping into the hammer and nail business, it also is likely to offer some very attractive opportunities.

The cost of hiring home improvement contractors continues to rise, and, says Barbara Alexander, a vp and building and construction analyst with Salomon Brothers, New York, "There are 90 million households out there, including 40 million that are more than 20 years old and are owner-occupied. I have never seen a 20-year-old house that couldn't use some work."

The home improvement industry also has the unusual ability to increase the market for its goods and services. In the food industry, for example, "you can take the number of stomachs in the country and that is the governing factor: How many cubic inches of stomach you have to fill," says Harry Franta, of *Home Center Magazine*, Lincolnshire, Ill.

"Our business has an ability to feed on its own success. If someone comes into the store and does that typical first project—say painting—and goes to the store, gets the right kind of tools and the right paint and gets the job done, it gives them a lot of satisfaction, a sense of accomplishment," he says.

"When that happens, it gives them that all-important confidence to say, 'Hey, the light switch broke, and I don't want to spend $50 to get an electrician over here. I'm going to see if I can do it.'

"What happens with do-it-yourselfers is that the confidence factor keeps growing and the [home improvement industry] pie gets bigger."

Says Ms. Alexander: "One of the things that these companies are trying to do is to get people to feel comfortable about doing larger and larger projects, because, ultimately, that is the way they are going to increase their business."

—B.G.Y.

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Nestle ups ante for food mergers

By NANCY GIGES and GAY JERVEY

Nestle S.A.'s willingness to pay $3 billion to buy Carnation Co. (AA, Sept. 6) is a clear indication that consolidation in the food industry is likely to be slowed by the high ante required to purchase a quality U.S. company.

Signaling growing interest among foreign companies in the huge U.S. food business, a cash-rich Nestle is determined to enhance its presence in the U.S. by paying top dollar—the most involving any non-oil-company acquisition—for Carnation's dairy, pet-food and tomato-products businesses.

In return, it will double its business in the U.S. and will benefit from being able to expand Carnation's products overseas through its established Nestle network. Less than 20% of Carnation's sales come from abroad.

Last year, Nestle obtained about 25% of its $13.4 billion in total sales from North America. But over the past several years, top executives at the company's Vevey, Switzerland, headquarters have bemoaned poor profitability in the U.S.—a condition they clearly wish to correct.

Most analysts put their stamp of approval on the match, despite the high price tag. "It's certainly a great idea for Carnation stockholders," said Ronald Morrow of Smith Barney, Harris Upham & Co.

"It's a good fit," said Robert Cummins of Wertheim & Co. "Both companies are major factors in the U.S. grocery market. The attractiveness for Nestle lies in the fact that the company can broaden its product lines, as well as increase its clout in grocery stores, by having more products."

A spokesman in Vevey said it's too early to know which Carnation brands will be marketed in Europe, but he pointed out that Carnation already is selling in several European countries. "They have their own European network. It will be a question of integrating it with our own," he said.

In the U.S., a spokesman at Nestle Enterprises, which oversees 10 U.S. Nestle subsidiaries, including most food operations, said Carnation would report directly to Switzerland and not to James Biggar, president of Nestle Enterprises.

For its part, the Carnation acquisition will give Nestle new opportunities in an array of product lines, most of which Nestle's U.S. operations have never touched.

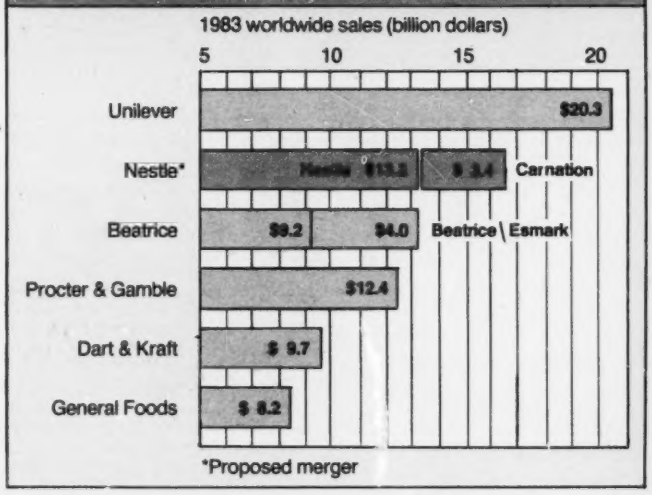
Although best known for its evaporated-milk products—for years made famous by Carnation's "contented cows"—Carnation also has strong footing with its Friskies and Mighty Dog pet foods, Coffee-mate and Instant Breakfast dairy products and Contadina tomato products, as well as other items in the 200-plus Carnation product line.

Particularly interesting for Nestle—with its highly successful Lean Cuisine frozen foods from its Stouffer's subsidiary—is Carnation's move into the health-and-fitness area. Two years ago, the company christened Carnation Health & Nutrition Centers and,

(Continued on Page 100)

Worldwide grocery giants

Nestle's proposed acquisition of Carnation would solidify its hold on the No. 2 spot among grocery product marketers worldwide. *Source: Fortune 500* directories.



Court lassos Chiat on work for Pizza Hut

By RUTH STROUD

Los Angeles—Godfather's Pizza won a preliminary injunction against Chiat/Day last week that restricts 10 of the ad agency's staffers from working on or helping those handling the Pizza Hut account.

"Justice has prevailed," noted Julian Pollok, an attorney with Hahn & Cazier, the law firm here representing Costa Mesa-based Godfather's. "We got everything we wanted."

Although the decision may appear novel in advertising circles, where sharing of proprietary information during an agency review apparently is taken for granted, similar suits are common in other industries, Mr. Pollok said.

"This just shows that the advertising business is subject to the same rules as other businesses," he said.

The Godfather's lawsuit, filed on June 29 (AA, July 16, *et seq.*) in superior court here, asked that those agency employes who had been party to a Godfather's review and had access to the company's proprietary marketing information not be allowed to work on the Pizza Hut account. Chiat/Day acquired the account soon after dropping out of the Godfather's review.

The suit, filed before the agency was awarded the $20 million account by Wichita-based Pizza Hut, charged that Chiat/Day would be in an "irreconcilable conflict position" if it won the account and "necessarily be obligated to make use of the confidential" materials it

(Continued on Page 104)

No anti-takeover plan, execs say

ABC's stock puzzle

By DIANE MERMIGAS

Officials of American Broadcasting Cos., while maintaining they do not know who or what is behind last week's ABC stock-buying spree, say they will not take any immediate action against possible takeover attempts.

Executives at Capital Cities Communications and Gulf & Western issued denials of rumors their companies were behind the ABC stock run.

Federal officials say such a merger could pose antitrust and other questions relating to cross ownership of over-the-air broadcast properties, cable tv systems and services and publishing interests.

However, ABC executives and Wall Street analysts agree that the mystery involving ABC stock activity may start unraveling this week.

Any possible tender offer would have to be made soon because a continuation of last week's stock activity would only drive up the price. ABC stock jumped 6 points Sept. 5 and another 2 points Sept. 6. However, at close Sept. 7 trading was down 3⅛ to $74 a share, a price ABC officials say more accurately reflects the company's true worth. Volume also declined, from a high of 1.2 million shares Sept. 6 to 347,900 on Sept. 7.

The Securities & Exchange Commission must be no-

(Continued on Page 102)

Last Minute News

PediaCare cough/cold remedy goes national

Fort Washington, Pa.—Johnson & Johnson's McNeil Consumer Products Co. subsidiary is introducing nationally PediaCare children's cough/cold remedy in three forms. PediaCare 1 is a cough suppressant, PediaCare 2 is a decongestant/antihistamine and PediaCare 3 is a combination of those two formulas. All come in liquid form; PediaCare 3 also comes in chewable tablets. The company plans to launch a $3.6 million multimedia campaign. It was not known at press time what ad agency would handle the effort.

Casualties mount in computer book shakeout

New York—The computer magazine shakeout rumbles on with the folding of *K-Power* and *Compute!'s PC* and *PCjr*. Scholastic says *K-Power*, the 9-month-old magazine that just absorbed rival *Microkids* (AA, June 11), will become a section of its *Family Computing* as of the January issue. Editorial material from *Compute!'s PC* and *PCjr*, which debuted last March from Compute! Publications, Greensboro, N.C., will appear in *Compute!*, with the November issue.

AFL-CIO launches $1.2 million ad campaign

Washington—AFL-CIO is breaking today national tv, radio and print ads covering such topics as education, equal rights, jobs, healthcare, taxa-

(Continued on Page 8)

DDB left holding Atari IOU

By BRIAN MORAN

New York—Atari Corp., stymied by its failure to collect some $300 million in receivables, has left former videogame agency Doyle Dane Bernbach holding the bag for at least $12 million in media costs and unpaid commissions.

According to a DDB source, the agency has not received a penny for its placement of Atari's $6 million Summer Olympics network tv buy. That figure represents "close to half" of Atari's total debt to the

(Continued on Page 104)

NEWSPAPER

More than Tories win

AA
DC 20014CONGLI FMJF M
CONGRESSIONAL INFO SERVICE
521 ACQUISITIONS
4520 EAST-WEST HWY #800
WASHINGTON DC 20014

Air-war ads draw battle lines

By TOM BAYER

Airlines headed into the sagging travel season are unleashing ad campaigns that reflect how the survival-of-the-fittest market is shaking out: Struggling carriers are firing themselves up with hard-hitting, fare-based messages, while the superpowers unveil ads that come from cool heads.

Four airlines, each with new ads appearing last week or being launched today, show how the airline industry is evolving:

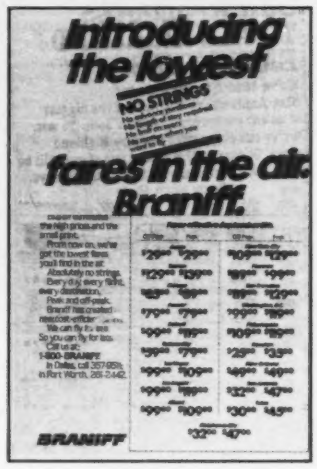
- Frontier Airlines, which lost nearly $16 million in the first six months, says its fares are low and lower, "fares you can use."
- Braniff Airlines, shifting its marketing strategy in midstream, says its fares are the lowest.
- Continental Airlines, continuing to fight its way back from bankruptcy, portrays passengers on other airlines slapping their foreheads and exclaiming they could have flown Continental instead of United Airlines or others.

In a world of airlines, one airline has always been something special.
American Airlines
"Continental would have Federal Expressed my ticket to my desk overnight. Free! Why did I fool around with United?"
CONTINENTAL

As American Airlines breaks a new "special" campaign theme, the "second-tier" carriers fire off hard-hitting messages.

- Meanwhile, relatively prosperous American Airlines portrays itself simply as "Something special in the air." And, unlike the weaker carriers, American and Chicago-based United are raising unrestricted fares $10 over current levels.

The new ads, besides mirroring the so-called "two-tier" system developing in the airline industry, also reflect particular conditions that face each company.



In Frontier's case, the Denver-based airline is staving off mounting losses by shifting to the low-fare, no-restriction, peak and off-peak strategy pioneered by Southwest Airlines and Pacific Southwest Airlines 12 years ago. Frontier's chief target, however, is Continental, which adopted the low-fare approach as part of its reorganization through bankruptcy proceedings.

Frontier also is changing its routes and schedules effective Oct. 1, in order to increase traffic to popular destinations and eliminate marginal or unprofitable runs to 22 cities.

"What we're doing will lower our cost of doing business," said Ron Thornton, general manager of sales for the airline. "Handling 74 different fares was highly inefficient."

Mr. Thornton said the decision was based on market research indicating the carrier was putting its emphasis on the wrong areas, such as meal service.

The tag line for the campaign

(Continued on Page 102)

Highlights

Can Edith Bunker, Bubba Smith and Gen. John Vessey, chairman of the Joint Chiefs of Staff, persuade more than 70 million Americans to vote? The Ad Council, in the most intensive effort in its 42-year history, hopes so. *See Page 10.*

Cadillac will try to bridge what it sees as a marketing gap between current model owners and buyers of luxury import autos with its 1986 Cadillac Seville. *See Page 12.*

The month of September again is bringing fat magazines to newsstands and mailboxes, as a variety of publications are setting advertising page and revenue records with their September issues. *See Page 14.*

The first presidential campaign in which advertising played a major role was in 1840. Details of William Henry Harrison's campaign are excerpted from "Packaging the Presidency: A History and Criticism of Presidential Campaign Advertising" by Kathleen Hall Jamieson. *See Page 42.*

Miami University students in Oxford, O., get a taste of the real world through the Laws, Hall & Associates student-run ad agency. The agency has been directed by marketing professor John Maggard for 12 years. *See Page 48.*

Success is becoming *Success!* under new management, with new graphics, new editorial and business staffs and a new focus that is taking aim at the "baby-boom" aged young male manager. *See Page 74.*

Home Box Office is preparing antipiracy spots using celebrities to help thwart the estimated $700 million in lost revenues each year to illegal tapping into pay-cable signals. The spots, made in-house, start on HBO later this year. *See Page 90.*

CORPORATE CLOSEUP

Through aggressive expansion and national advertising, Century 21 Real Estate Corp. has etched itself into the American consciousness as the No. 1 U.S. seller of homes. *See Page 4.*

INTERNATIONAL

U.S. advertising and media executives believe this country's presidential race may lead to a weaker U.S. dollar and stronger earnings abroad. *See Page 54.*

Women's magazines are booming in Japan as the new image of the modern career woman comes into focus there. Although the concept of the "career woman" is not as advanced in Japan as in the U.S., gradual changes in women's roles have created a new market for such magazines. *See Page 54.*

Young & Rubicam is returning to Venezuela next year after leaving in 1978 because of a government rule restricting foreign ownership of ad agencies. The move is the strongest indication yet that agencies do not have to strictly comply with Venezuela's controversial foreign-ownership restrictions. *See Page 56.*

Printemps Ginza, a French department store in Tokyo designed to appeal to Japan's "working woman," is breathing new life into the staid, conservative Ginza shopping district. *See Page 60.*

VIDEOTECH

Advertisers can expect to be wooed more ardently for their dollars as the number of traditional media outlets grows and as newer media mature, a survey says. *See Page 68.*

Metromedia Producers Corp. soon will offer a schedule of prime time blockbusters to interested stations. *See Page 69.*

COMING THURSDAY

SPECIAL REPORT

Radio—Its continued success as an important advertising medium in this tv age can be attributed to its versatility.

REGULAR FEATURES

ADBEAT	95	GETTING PERSONAL	38
ADVERTISING MARKETPLACE	91	LETTERS	24
AGENCY PEOPLE	76	OBITUARIES	6,96
BRADY'S BUNCH	80	PHOTO REVIEW	36
CON-SID-ERATIONS	18	PRESSTIME	8
EDITORIAL	18	REGIONAL NEWS	84
FOR THE RECORD	99	VIDEOTECH UPDATE	88
FORUM	20	WORLD NEWS ROUNDUP	3

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Time venture faces a rival

By STUART J. ELLIOTT

New York—A battle of new investment magazines could begin early next year with Time Inc.'s expected weekly title competing against a new publication from Plaza Communications.

Details about the Time Inc. project, under consideration by the company's magazine development group (AA, April 23, *et seq.*), continue to emerge, despite corporate disclaimers. Latest word from industry sources is that the magazine, likely to be named *Investor's Weekly*, will debut in March.

Plaza's strategy is to attack the market with a monthly, *Personal Investor*, that would stalk the same readers and advertisers as the Time Inc. publication. Its publication would debut in January or February.

Plaza already publishes *Registered Representative*, a magazine for stockbrokers.

The Plaza magazine would face a Time Inc. property that would be the same size as *Time* and on slick paper, sources say. Its content would be oriented toward coverage of big breaking news stories, done by a national network of 60 staffers. Frank Lalli, ex-*New York Daily News* business editor, is expected to be editor; other top editors, it is said, will include Richard Stern, formerly of *Forbes*, and

(Continued on Page 104)

NFL tv ad rates sacked by glut

By VERNE GAY

New York—National Football League games on network tv are wallowing in a severe buyer's market, with ad prices down 25% to 30% from last year.

At least one network was forced to ask advertisers to "front-load" their football schedules to keep unsold time from deflating the market further.

The situation for the networks has worsened due to major sports advertisers shifting big sports dollars into prime time, the confusion and depressed state of college football on network and syndicated tv and the uncertainty of sports advertisers in their plans for the Major League Baseball playoffs and World Series.

There also are reports that major sports advertisers, worried by the skyrocketing prices being paid by networks and syndicators for sports broadcast rights, are sending a message to the broadcasters that the days of carte blanche sponsorships are over.

ABC's "Monday Night Football," coming off a poor ratings performance in 1983, is experiencing the greatest difficulty, according to sources. Instead of getting its rate-card base of $180,000 per 30-second spot, ABC reportedly is selling spots in "Monday Night Football" for as little as $125,000. CBS and NBC, which telecast NFL games on Sundays, are getting between $60,000 and $75,000 per 30 seconds for spots that normally fetch $90,000.

ABC's sports sales corps reportedly is encouraging clients with football ad schedules in October and November to move their spots into September, a front-loading process the networks employ when demand is especially soft. By increasing commercial time in September, ABC would have inventory available later in the season as a hedge against the possibility of

(Continued on Page 102)

Nestle

(Continued from Page 1)

additionally, has experimented with other "healthy" products that may benefit from the heavy advertising and promotional support Nestle is expected to give selected Carnation products.

Although the centers' performance to date has been disappointing—the chain has only 54 locations, as opposed to the 100-plus projected—Carnation, under Nestle's auspices, likely will build its efforts in the weight-loss business by accelerating tests of those "less is more" products that fare well with health-conscious consumers.

Through a spokesman, Carnation denied any major changes would take place under Nestle management. And at least one of the Carnation agencies, SSC&B, was visited by top Carnation executives last week and told the acquisition would not affect their relationship.

Period of no changes

One analyst said that, at least for now, this should be the case. "I think there will be a period of consolidation with no major changes," said Alan Greditor of Drexel Burnham Lambert, New York. "It would be far more pragmatic to keep business as usual and let the companies get to know each other before making any earth-shattering changes." (Carnation declined comment on its future plans for its products.)

However, industry speculation appears to contradict the company line. Many suggest that Everett Olson, Carnation's conservative 77-year-old chairman and chief executive officer, will retire in the near future.

For his part, Merrill Lynch's Bill Maguire predicted Nestle will change management after six to nine months and will put its own people aboard to infuse Carnation with more aggressiveness.

And aggressiveness, particularly in new-product development, is what industry observers have said Carnation needs. The company certainly is a well oiled money machine—it has posted 31 consecutive profitable years—but it also has maintained an old-fashioned and, in some instances, parochial modus operandi.

"It's been my impression that Carnation has not really been going anywhere," said one analyst. "They seem to have been milking some of their key product lines, and have been slow to develop a strong new-product track record."

Such is the company Nestle has hooked, but the lure of strengthening its U.S. interests proved too powerful to resist. It was not until recently that top Nestle management in Switzerland recognized that its U.S. operations would not generate enough cash independently to fund long-term growth, either through new-product development or acquisition. That became apparent late last year when Nestle acquired Ward-Johnson Co. At that time, the acquisition was heralded as only the first in a round of purchases designed to give the company a firmer position in the U.S.

Spree may continue

Nestle's buying spree is not likely to stop with Carnation. Indeed, Nestle has said that it will continue to woo smaller companies with product lines in targeted, preferably growing and profitable, business categories, including pharmaceuticals and some food areas.

"We always have about 30 to 40 projects going, and I'm sure in the next few months more things will pop up," said Helmut Maucher, managing director, earlier this year.

In the Ward-Johnson deal, Nestle Co., the White Plains, N.Y., subsidiary, acquired such all-American brand names as Chunky, Bit-O-Honey, Raisinets, Oh Henry! and Sno-Caps, all of which fit nicely with Nestle's Crunch and regular chocolate bars, as well as Toll House morsels.

In an in-depth interview with Advertising Age (AA, July 5, 12), Mr. Maucher addressed questions about the company's over-all strategic blueprint and the Ward-Johnson acquisition, in particular: "I think our opportunities for growth [in the U.S.]—with all the resources we have—are better than in the rest of the world for the next few years...

"First, we look for acquisitions that are complementary to something we have already in our product line, so through the acquisition we can strengthen our position, strengthen our business, be better positioned in the consumer's eyes, improve our corporate image, etc. Ward-Johnson is exactly that type of acquisition because we have a nice chocolate image...

"Second, we are interested in businesses where somebody else was creative, innovative and has developed the nucleus of a new business. But he has neither the financial nor international possibilities to expand. Here Nestle has a natural partner, of course, because with our financial capacity we can develop this business, and we have the international contacts and organizations already in place."

Mr. Maucher's words explain well Nestle's acquisition of San Francisco-based Hills Bros., first announced last April. It will enable Nestle to realize a long-contemplated dream of entering the ground-roast arena in this country

"Our opportunities for growth (in the U.S.) are better. . .in the next few years" — Helmut Maucher

—a dream deemed necessary if Nestle is to shore up its listless U.S. coffee operations.

Instant-coffee share off

Nestle's share of the instant-coffee business has been declining since it peaked in 1979 at 33.5%, according to figures compiled by beverage analyst John Maxwell Jr. According to longtime Nestle watchers, the company was seduced during the middle-to-late 1970s by soluble coffee's growth rates and badly misjudged that category's momentum, which has slowed consistently since that time.

Equally important, Hills Bros. fits Nestle's bill in terms of what it is looking for in a partner. Not only has Hills Bros., long known as a quintessential regional roaster, suffered from eroding U.S. coffee consumption, but it has lacked the financial, distributional and marketing clout to cross swords successfully with such giants as Procter & Gamble and General Foods, which command 24.9% and 34.6% of the ground-roast business, respectively.

Interestingly enough, Nestle's commitment to the U.S. market has been reflected in not just acquisitions and new products—the company earlier this summer introduced Nestle Custom Blended coffees, a line of four instant brews with varying beans and tastes—but also through its depth of understanding of the particular problems and opportunities endemic to this country.

As such, after years of shuttling Swiss executives from Vevey to White Plains, Nestle appointed Mr. Biggar as head of most of Nestle's U.S. subsidiaries.

In describing his philosophy, Mr. Maucher told Advertising Age: "There was always a big misunderstanding for Europeans when they entered business in the U.S., as well as a misunderstanding by Americans who enter European business, that Europeans and Americans are the same people, that they apply the same rules, the same approach, the same marketing. But if one goes a little deeper, one finds that there are a lot of differences—in mentalities, in consumer approach, in consumer behavior—[all of which] need a completely different approach. And who can do it better than people who have lived in this country, were born in this country and know the country very well."

Whether or not companies know this country well, food-industry analysts see little prospect of further consolidation of this magnitude—unless it comes from foreign companies. These organizations, like Nestle, have to be so set on entering the U.S. food market in a big way that they will pay a premium to acquire.

Mr. Morrow of Smith Barney, said Nestle paid more than any domestic company would pay.

U.S. food companies have expressed continuing interest in good buys, but they emphasized that they must make sense economically. Another deal reportedly in the talking stages is PepsiCo/Kellogg, two companies that have been linked as possible partners in past years. A PepsiCo spokesman said the company does not comment on the subject of acquisitions and divestitures. At Kellogg, there was likewise no response to the possibility of a PepsiCo combination.

Another company on the acquisition trail, General Foods, said it is always looking at companies that "fit with our strategic plan," but that generally means smaller, less diversified companies with a limited line of food products. The Rye Brook, N.Y.-based food company has made several acquisitions within recent years, including Oscar Mayer processed meats, Entenmann's baked goods and Ronzoni Italian foods. But none has been of the magnitude of the Nestle-Carnation deal.

Analysts also cited Campbell Soup and Quaker Oats as plums in the U.S. food business, but they quickly add that it would take a lot of money to get them.

Campbell president R. Gordon McGovern has stated repeatedly that Campbell is not for sale and is not interested in merger. What the Camden, N.J.-based company wants is to grow through acquisition itself.

"It's like a funnel out there," said a Campbell spokesman, "and when you get to the quality companies, the funnel narrows dramatically." He said Campbell has looked at large companies for possible acquisition, but so far none of the large ones has fit. "We must have something that we can fit our hands around and manage well," he added.

Earlier this year, Mr. McGovern said Campbell could easily digest about $200 million in acquisitions every two years. Pillsbury and ConAgra executives also have stated publicly they are on the lookout for consumer foods companies.

One analyst who doesn't think all the big candidates have been gobbled up is Ronald Strauss of William Blair & Co., Chicago. "Kellogg, for instance, would be a pure play and a fine candidate to my mind," he noted.

Certainly, there cannot be many more of the likes of Nestle-Carnation and the Beatrice Cos.-Esmark Inc. deal that rang up a $2.8 billion tab in May. Other food buys have been more limited in scope, like Ralston Purina's bid several weeks ago for Continental Baking, a $475 million deal.

Other recent combinations have been Dart & Kraft's purchases of Celestial Seasonings and Lender's Bagel Bakery, and Quaker Oats' acquisition of Stokely Van Camp.

New relationships bloom

Meanwhile, the consolidations that have taken place since Nabisco joined up with the old Standard Brands company in the early 1980s have been establishing new types of relationships between manufacturers and suppliers. Bill Bishop, president of Willard Bishop Consulting Economists, Barrington, Ill., predicts manufacturers will gain more and more clout.

"You'll see manufacturers intruding into the business of their retail and wholesale customers, more actively involved in the details of inventory levels and marketing plans, things that were once the sole province of the retail and wholesale companies," he said.

Some see benefits for the wholesale and retail segments of the business as well, since those in the segments may be able to negotiate better, bigger buys by dealing with fewer, larger companies. But at least one marketing executive from a major grocery chain disagreed. "This merger is a ho-hum thing for us. We don't think such mergers will drastically affect the way we do our business."#

Also contributing to this story were reporter Ruth Stroud in Los Angeles, bureau chief Sarah E. Moran in Chicago and correspondents Dagmar Mussey (Duesseldorf), Sean Milmo (London) and John Parry (Geneva).

Both big spenders

Chicago—Both Nestle Enterprises and Carnation Co. are among U.S. companies in the Advertising Age 100 Leading National Advertisers issue to be published Sept. 14.

As the 61st-largest advertiser, Nestle invested $115 million in advertising in 1983, including $95 million in measured media. The biggest dollars went into the company's coffee, chocolate and Stouffer's frozen foods. Taster's Choice soluble coffee received $19.5 million in measured media; Stouffer's frozen foods, $23 million, including $8 million for Lean Cuisine; Nestle morsels, $15 million; Nestle Crunch, $8 million, and Nestle Quik, $6 million.

Nestle's roster of agencies for food products includes Leo Burnett USA, Chicago; J. Walter Thompson USA, New York; Jordan, Case & McGrath, New York; McCann-Erickson, New York; HBM/Creamer, Pittsburgh, and Sherwood & Schneider, New York.

In 1983, Carnation was the 99th-largest U.S. national advertiser, with ad spending of $54.3 million, including $39.3 million in measured media.

Its biggest dollars went to support New Breed dry dog food ($7.6 million) and Friskies cat food ($7.2 million). Another $4 million was invested in Fancy Feast cat food and $5 million in Come 'N Get It dog and puppy food.

The company's major agencies are SSC&B, New York; Foote, Cone & Belding, Los Angeles, and Dailey & Associates, Los Angeles.#

Will FTC remember CooperVision case?

By STEVEN W. COLFORD

Washington—If Nestle expects the Federal Trade Commission to consider favorably its proposed acquisition of Carnation, the Swiss conglomerate better show a little more respect than in July, when its negative attitude toward the government agency killed its proposed $513 million purchase of CooperVision.

The FTC nixed the deal for CooperVision, the Palo Alto, Cal., contact lens-care company, after Nestle officials refused a commission request to sell about 25% of the business that competed directly with Alcon Laboratories, Fort Worth, a Nestle subsidiary.

"The key this time will be how cooperative Nestle is," an FTC official said. "If they have the same sort of 'we-want-all-or-nothing' attitude, there will be the same end result."

The FTC and the Department of Justice must decide which agency will investigate the proposed $3 billion acquisition, but FTC chairman James Miller last week said he expected to get the case, largely because of the commission's history of reviewing cases involving consumer-product companies.

Besides the CooperVision case, FTC in 1979 approved Nestle's acquisition of Stouffer. But Nestle remains subject to a 1979 commission order requiring the FTC approval of any acquisition of a company involved in frozen prepared foods, a category in which Carnation has minor interests.

The products likely to draw the most FTC attention are ice cream, cocoa and dairy products as the commission considers the potential anticompetitive effects of Nestle's buyout.

In Germany, Nestle must get the blessing of the Cartel Office to acquire Carnation's subsidiary, Gluecksklee, which has annual sales estimated at $100 million. Both companies market canned milk and yogurt in Germany. Nestle's subsidiary, Allgauer Alpenmilch, is already the market leader in branded goods.

German observers at this point think the Cartel Office will allow the acquisition there.#

Also contributing: Dagmar Mussey in Duesseldorf.